

# higher education & training

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Department:  
Higher Education and Training  
**REPUBLIC OF SOUTH AFRICA**

N610(E)(J5)H  
JUNE EXAMINATION

NATIONAL CERTIFICATE

INCOME TAX N6

(4010206)

5 June 2014 (X-Paper)  
09:00–12:00

Calculators may be used.

This question paper consists of 7 pages and 1 addendum.

**DEPARTMENT OF HIGHER EDUCATION AND TRAINING  
REPUBLIC OF SOUTH AFRICA  
NATIONAL CERTIFICATE  
INCOME TAX N6  
TIME: 3 HOURS  
MARKS: 200**

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**INSTRUCTIONS AND INFORMATION**

1. Answer ALL the questions.
  2. Read ALL the questions carefully.
  3. Start each question on a NEW page.
  4. Number the answers according to the numbering system used in this question paper.
  5. Show ALL the calculations.
  6. Write neatly and legibly.
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**QUESTION 1**

Indicate in each of the following examples which are TAXABLE or NON-TAXABLE. Write only TAXABLE or NON-TAXABLE next to the question number (1.1–1.10) in your ANSWER BOOK.

- 1.1 Medical contributions by an employer to a medical aid scheme of a 35 year-old taxpayer
- 1.2 Drawings from the Unemployment Insurance Fund (UIF)
- 1.3 Prize won in a competition
- 1.4 Legacy
- 1.5 Selling of water rights by a farmer to his neighbours
- 1.6 Profit on the sale of your residential home
- 1.7 Income from the sale of puppies with intention to gain from it
- 1.8 Profit on the sale of a business
- 1.9 Freddie's employer bought him a fridge in lieu of a bonus
- 1.10 Prize won as best salesman of the year

(10 x 1) [10]

**QUESTION 2**

2.1 Nelly Noah, age 45, gets the full use of a company car for the tax year ended 28/2/2014. The cost of the vehicle is R220 000 (VAT included). She made use of the car as from 1 November 2013.

Determine the taxable benefit to be included in her taxable income. (3)

2.2 Bugs Benni earns a salary of R180 000 per annum, which represents an increase of 6% over last year's (2013) salary. His employer provides him with a fully furnished six-roomed house as from 1 September 2013. It was required of him to pay rent of R800 per month and to be responsible for water and electricity.

Calculate Bugs Benni's taxable benefit, if any, for the tax year ended 28/2/2014. (7)

2.3 Tommy Tiger bought a house for investment purposes. He obtained a loan of R850 000 from SAAB Bank. He supplied you with the following information for the tax year ended 28/2/2014:

	RAND
Rental Income received (14 months) at R5 000 per month	
Re-connection fee for water that was cut off due to non-payment	750
Bond repayment (56% capital)	36 000
Replacing wooden door with aluminium sliding-door	4 500
Replace worn carpets with fancy tiles	3 000
Fix leaking roof	250
Agency commission/fees	3 600
Installation of sprinkler system	1 500
Rates	2 500
Insurance: Household	1 000
Building	3 000
Replacing wire fencing with brick fencing	15 000

Calculate the net rental income to be included in Tommy Tiger's taxable income. (15)  
[25]

**QUESTION 3**

Peter Pinetree is a 49 year old, married in community of property, registered provisional taxpayer. He earns a salary of R30 000 per month with an increase of 6.5% with effect from 1 July 2013. He also received rental income of R4 000 per month with an anticipated increase of 15% due on 1 September 2013. His employer deducted employees' tax from him at a rate of R2 500 per month plus pension deductions of 7.5% per month.

For the 2013/2014 tax year, you are required to determine the following for Peter Pinetree:

- 3.1 His first provisional tax payment (Indicate the date and form to be used.)
- 3.2 His second provisional tax payment (Indicate the date.)

**[25]****QUESTION 4**

Jimmy Jansen, identity number 4911295074086, retired at the end of the month in which he became 64 years old. He is married in community of property, with one child, 25 years old and a full-time registered student. The following information is made available to you:

	RAND
Salary at R35 000 per month	
Pension annuity at R7 000 per month	
Accumulated leave pay	15 000
Lump sum from pension fund	930 000
Gratuity from his employer	75 000
Medical aid contributions: Self	35 000
Employer	25 000
Pension fund contribution	28 000
Life policy pay-out	750 000
Medical expenses not covered by the fund	12 000
Rental income	48 000
Allowable rental expenses	8 000
Bonus	10 250
Tax withheld during the year	23 000
Prize for best employee of the year	10 000

Determine Jimmy Jansen's tax liability for the tax year ended 28/2/2014.

**[40]**

**QUESTION 5**

Farmer Brown, 58, is married out of community of property and had been farming for the last 10 years. He submitted the following information to you:

<b>INCOME</b>	<b>RAND</b>
Sale of fresh produce	850 000
Sale of river sand to the locals (once-off)	4 000
Renting out part of the farm house	12 000
Subsidies received to build a dam	100 000
Interest received on investment	23 500
Bonus received from co-operations	7 500
Loan from bank to buy farm house	850 000
<b>EXPENSES</b>	
Prevention of soil erosion	50 000
Eradication of noxious plants	25 000
Building of houses for six workers	110 000
Building of dam	250 000
Purchases of seeds	15 000
Tractor bought in 2012	120 000
Rations for workers	12 000
Produce used for private consumption (cost R4 000)	8 500
Groceries bought for farm workers	20 000
Wages: farm workers	80 000
to build dam	10 000
Medical contributions for workers	8 500
New plough bought on 1/9/2013	100 000
Opening stock: Barns	60 000
Land	40 000
Closing stock: Barns	45 000
Land	20 000
Interest paid on loan to buy seeds	10 000
Provisional tax paid – 2013/2014	7 500
Road built from highway to farm house	85 000
Contributions to retirement annuities	24 000
Cash donated to local church (receipt was issued)	10 000
Transfer to private bank account	60 000

Determine Farmer Brown's tax liability for the tax year ended 28/2/2014.

[50]

**QUESTION 6**

DKW (Pty.) Ltd. supply you with the following extracts from their Income Statement:

	RAND
Credit Sales (VAT included)	455 000
Cash Sales (VAT excluded)	200 000
Interest on debtors accounts	10 000
Bad debts recovered: customers	20 000
employees	5 000
Provision for bad debts: 2013	24 000
2014	18 000
Interest paid on loan to finance: Stock	4 500
Office equipment	5 500
Payment of provisional tax	10 000
Bad debt written off: Loan to accountant	12 000
Purchases	200 000
Import duties	25 000
VAT collected	120 000
Stock: 1/3/2013	55 000
Stock: 28/2/2014	45 000
Transfer to General reserve fund	75 000
Wages	180 000
Medical contributions paid: workers	20 000
Administrative expenses	25 400
Telephone	22 700
Water and electricity (payment of R3 000 for March 2014 included)	18 000
Rental paid (include payment until June 2014 at R4 000 per month)	64 000
Stationery	2 900
Profit on sale of old delivery van	17 000
(The van was bought on 1/9/2010 at a cost of R140 000 (VAT included). It was sold on 31/8/2013 for R20 000. Depreciation was at a rate of 25% per annum on cost).	
New delivery vehicle bought on 1/9/2013 (VAT included)	125 000

Determine DKW's tax payable for the tax year ended 28/2/2014.

[50]

**TOTAL: 200**

## ADDENDUM 1

**RATES OF TAX PAYABLE FOR THE YEAR OF ASSESSMENT ENDING  
28 FEBRUARY 2014 AND 30 JUNE 2014**

TAXABLE INCOME	RATES OF TAX	RAND
0 – 165 600	18% FOR EACH R1	
165 601 – 258 750	29 808 + 25% OF THE AMOUNT OVER	165 000
258 751 – 358 110	53 096 + 30% OF THE AMOUNT OVER	258 750
358 111 – 500 940	82 904 + 35% OF THE AMOUNT OVER	358 110
500 941 – 638 600	132 894 + 38% OF THE AMOUNT OVER	500 940
638 601 AND OVER	185 205 + 40% OF THE AMOUNT OVER	638 600

## REBATES:

PRIMARY	R12 080
SECONDARY (Persons 65 and older)	R 6 750
TERTIARY (Persons 75 and older)	R 2 170

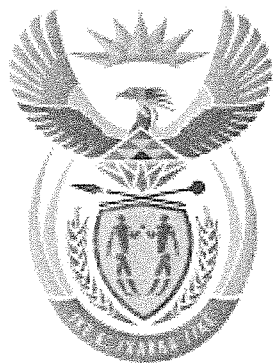
**RETIREMENT FUND LUMP SUM BENEFITS OR SEVERANCE BENEFITS**

TAXABLE PORTION OF LUMP SUM	RATES OF TAXES	RAND
0 – 315 000	0%	
315 001 – 630 000	18% OF THE AMOUNT OVER	315 000
630 001 – 945 000	56 700 + 27% OF THE AMOUNT OVER	630 000
945 001 AND OVER	141 750 + 36% OF THE AMOUNT OVER	945 000

**SMALL BUSINESS CORPORATIONS**

TAXABLE INCOME	RATES OF TAX	RAND
0 – 63 556	0%	
63 557– 350 000	7% OF THE AMOUNT OVER	63 556
350 001 AND OVER	20 051 + 28% OF THE AMOUNT OVER	350 000





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## MARKING GUIDELINE

**NATIONAL CERTIFICATE**

**JUNE EXAMINATION**

**INCOME TAX N6**

**5 JUNE 2014**

**This marking guideline consists of 8 pages.**

**QUESTION 1**

- 1.1 Taxable
- 1.2 Non-Taxable
- 1.3 Non-Taxable
- 1.4 Non-Taxable
- 1.5 Non-Taxable
- 1.6 Non-Taxable
- 1.7 Taxable
- 1.8 Non-Taxable
- 1.9 Taxable
- 1.10 Taxable

(10 X 1) [10]

**QUESTION 2**

## 2.1 NELLY NOAH

DETAILS	RAND	
CASH COST: $220\,000 \times (100 \div 114)$	192 982	1
$192\,982 \times 3.5\% \times 4$		
TAXABLE FRINGE BENEFIT	27 017	2

(3)

## 2.2 BUGS BENNI

DETAILS	RAND	
PREV. YEAR SALARY: $180\,000 \times (100 \div 106)$	169 811	1
$(A - B) \times (D \div 12) \times (C \div 100)$		1
$(169\,811 - 67\,111) \times (6/12) \times 18\% =$	9 243	3
LESS RENT CONSIDERATION: $200 \times 6 =$	(1 200)	1
TAXABLE FRINGE BENEFIT	8 043	1

(7)

## 2.3 TOMMY TIGER

DETAILS	RAND	
RENTAL INCOME: $(5\,000 \times 14)$	70 000	2
LESS EXPENSES		
RE-CONNECTION FEE	NIL	1
BOND REPAYMENT $44\% \times 36\,000$	15 840	2
REPLACE WOODEN DOOR	NIL	1
REPLACE WORN CARPETS	3 500	1
FIX LEAKING ROOF	250	1
AGENCY FEES	3 600	1
INSTALL SPRINKLER SYSTEM	NIL	1
RATES	2 500	1
INSURANCE: HOUSEHOLD	NIL	1
BUILDING	3 000	1
REPLACE BRICK FENCE	NIL	1
TAXABLE INCOME	41 310	1

(15)  
[25]

**QUESTION 3: PETER PINETREE**

DETAILS	DATE	FORM	RAND	
<b>FIRST PAYMENT</b>	31/8/2013	IRP 6		3
<b>BASIC AMOUNT</b>			394 605	1
SALARY: 30 000 x 4 =			120 000	1
30 000 x (1.065) x 8 =			255 600	2
<b>TOTAL SALARY =</b>			<b>375 600</b>	
RENTAL: 4 000 x 6 =			24 000	1
4 000 x (1.15) x 6 =			27 600	2
			426 600	
<b>LESS PENSION</b>				
426 600 x 7.5% =			(31 995)	2
			394 605	
<b>TAX PER TABLES</b>			95 677	1
<b>LESS REBATES</b>			(12 080)	1
			83 597	
<b>HALF YEAR</b>			41 799	1
<b>LESS TAX PAID:</b>	6 x 2 500		(15 000)	2
<b>FIRST PAYMENT</b>			<b>26 799</b>	1
<b>SECOND PAYMENT</b>	28/2/2014			2
<b>BASIC AMOUNT</b>			394 605	1
<b>TAX PER TABLES</b>			95 677	
<b>LESS REBATES</b>			(12 080)	
<b>LESS TAX PAID:</b>	12 x 2 500		(30 000)	2
<b>LESS FIRST PAYMENT</b>			(26 799)	1
<b>SECOND PAYMENT/TWEEDE BETALING</b>			<b>26 798</b>	1

[25]

**QUESTION 4: (JIMMY JANSEN 65 YEARS OLD)**

DETAILS		RAND	
SALARY: 35 000 x 9		315 000	2
PENSION: 7 000 x 3		21 000	2
FRINGE BENEFIT: MEDICAL AID		NIL	2
LIFE POLICY		NIL	1
RENTAL INCOME (48 000÷2)		24 000	2
RENTAL EXPENSES (8 000÷2)		(4 000)	2
BONUS		10 250	1
PRIZE		10 000	1
FRINGE BENEFIT: MEDICAL		25 000	2
		<b>401 250</b>	
LESS PENSION CONTRIBUTION: 28 000			
1) 1 750	2) 7.5% x 315 000	23 625	
DISALLOWED		4 375	3
		(23 625)	
		<b>377 625</b>	
<b>MEDICAL AID</b>			
MED CREDITS: (2 x 242) + (1 x 162) x 12 = 7 752			3
CONTRIBUTIONS: EMPLOYER + EMPLOYEE			
25 000	+ 35 000 =	60 000	2
PLUS: OUT OF POCKET =		12 000	1
LESS 4 x CREDITS (4 x 7 752) =		(31 008)	2
LESS 7.5% x 377 625 =		(28 322)	2
		12 670	2
<b>TAXABLE INCOME</b>		<b>364 955</b>	
TAX PER TABLES		85 300	
LESS REBATES: PRIMARY		(12 080)	1
		13 220	
PLUS TAX ON LUMP SUM		167 175	2
PENSION 930 000			1
LEAVE PAY 15 000			1
GRATUITY 75 000			1
LESS DISALLOWED (4 375)			2
TOTAL 1 015 625			
		215 504	
LESS TAX PAID		(123 000)	1
TAX PAYABLE		92 504	1

[40]

**QUESTION 5: FARMER BROWN**

DETAILS	FARMING INC/(EXP)	CDE	OTHER INC	
SALE PRODUCE	850 000			1
SALE OF SAND			4 000	2
RENTAL FARM HOUSE			12 000	2
SUBSIDIES DAM	100 000			2
INTEREST RECEIVED			23 500	2
LESS EXEMPT			(23500)	2
BONUS FROM CO-OP	7 500			2
LOAN	NIL			1
CLOSING STOCK	45 000			2
SOIL EROSION	(50 000)			1
ERADICATION OF PLANTS	(25 000)			1
HOUSES FOR WORKERS: (6 x 15 000 = 90 000)		(90 000)		3
BUILDING OF		250 000)		1
SEEDS	(15 000)			1
TRACTOR: 120 000 x 20%	(24 000)			2
RATIONS	(12 000)			1
PRIVATE CONSUMPTION	(4 000)			2
GROCERIES	(20 000)			1
WAGES: WORKERS	(80 000)			1
BUILD DAM		(10 000)		2
MEDICAL: WORKERS LIMITED: 10% x 80 000 = 8 000	(8 000)			2
PLOUGH: 100 000 x 50%	(50 000)			2
OPENING STOCK	(60 000)			2
INTEREST PAID: SEEDS	(10 000)			1
ROAD BUILT		NIL		1
TRANSFER			NIL	1
	719 500	(350 000)	16 000	
	(350 000)	350 000		
INCOME	369 500	NIL	16 000	
TRANSFER	(369 500)		369 500	
DONATIONS: 10% x 38 500 = 38 550			10 000)	2
INCOME			375 500	
LESS RAF: 1) 1750 2) 3500 – NIL = 3500 3) 15% x 375 500 = 56 325			(24 000	3
TAXABLE INCOME			351 500	1
TAX TABLES			80 921	
LESS: REBATES			12 080)	1
LESS: TAX PAID			(7 500)	2
TAX LIABILITY			61 341	

[50]

**QUESTION 6: DKW PTY LTD**

DETAILS		RAND	
CREDIT SALES:	(455 000 x 100 ÷ 114)	399 123	2
CASH SALES		200 000	1
INTEREST		10 000	1
BAD DEBTS RECOVERED:	CUSTOMERS		
	EMPLOYEES	20 000	1
		NIL	1
PROVISION FOR BAD DEBTS:			
	2013: 25% x 24 000	6 000	2
	2014: 25% x 18 000	(4 500)	2
INTEREST PAID: STOCK		(4 500)	1
OFFICE EQUIPMENT		NIL	1
PROVISIONAL TAX		NIL	1
BAD DEBTS: LOAN		NIL	2
PURCHASES		(200 000)	1
IMPORT DUTIES		(25 000)	1
VAT COLLECTED/		NIL	1
OPENING STOCK		(55 000)	2
CLOSING STOCK		45 000	2
TRANSFER		NIL	1
WAGES		(180 000)	1
MEDICAL WORKERS:	10% x 180 000	(18 000)	2
ADMIN EXPENSES		(25 400)	1
TEL		(22 700)	1
WATER/ELECTRICITY		(18 000)	1
RENTAL		(64 000)	1
STATIONERY		(2 900)	1
DEL VEHICLE: 1/9/2013			
CASH COST:	125 000 x 100 ÷ 114 = 109 649		2
W & T:	109 649 x 25% x 6 ÷ 12	(13 706)	2
OLD DEL VEHICLE – COST ON 1/9/2010:			2
	140 000 x (100 ÷ 114) = 122 807	(30 702)	2
W & T: 122 807 x 25% x (6 ÷ 12)	(15 351)		
ITV @ 28/2/2011	107 456		1
W & T: 122 807 x 25%	(30 702)		
ITV @ 29/2/2012	76 754		
W & T: 122 807 x 25%	(30 702)		1
ITV @ 28/2/2013	46 052		
W & T: 122 807 x 25% x (6 ÷ 12)	(15 351)	(15 351)	2
ITV @ 31/8/2013	30 701		
LOWER OF COST/SELLING PRICE	20 000		2
LESS ITV @ 31/8/2013	(30 701)		1
SCRAPPING ALLOWANCE	10 701	(10 701)	2
LOSS		(4 337)	
TAX @ 28%		NIL	2

[50]

## ANNEXURE 1

**RATES OF TAX PAYABLE FOR THE YEAR OF ASSESSMENT ENDING  
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**REBATES:**

PRIMARY R12 080

SECONDARY (Persons 65 and older) R 6 750

TERTIARY (Persons 75 and older) R 2 170

**RETIREMENT FUND LUMP SUM BENEFITS OR SEVERANCE BENEFITS**

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TOTAL: 200